

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2018-319-E

In the Matter of:)	
)	
Application of Duke Energy Carolinas,)	DIRECT TESTIMONY OF
LLC for Adjustments in Electric Rate)	KIMBERLY D. MCGEE FOR
Schedules and Tariffs)	DUKE ENERGY CAROLINAS, LLC

1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Kimberly D. McGee. My business address is 550 South Tryon
4 Street, Charlotte, North Carolina.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a Rates & Regulatory Strategy Manager for Duke Energy Carolinas, LLC
7 ("DE Carolinas" or "the Company").

8 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
9 **QUALIFICATIONS.**

10 A. I graduated from the University of North Carolina at Charlotte with a Bachelor of
11 Science degree in Accountancy. I am a certified public accountant licensed in the
12 State of North Carolina. I began my career in 1989 with Deloitte and Touche,
13 LLP as a staff auditor. In 1992, I began working with DE Carolinas (formerly
14 known as Duke Power Company) as a staff accountant and have held a variety of
15 positions in the finance organization. From 1997 until 2009, I worked for
16 Wachovia Bank (now known as Wells Fargo) in a variety of finance and
17 regulatory positions. I rejoined DE Carolinas in January 2009 as a Lead
18 Accountant in Financial Reporting. I joined the Rates Department in 2011 as
19 Rates & Regulatory Strategy Manager.

1 **Q. PLEASE DESCRIBE YOUR DUTIES AS RATES AND REGULATORY**
2 **STRATEGY MANAGER FOR DUKE ENERGY CAROLINAS.**

3 A. I am responsible for managing DE Carolinas' fuel charge adjustment cost
4 recovery processes, providing guidance on compliance with regulatory conditions
5 and codes of conduct and providing regulatory support for retail rates.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

7 A. Yes. I testified in several of DE Carolinas' and Duke Energy Progress' annual
8 fuel charge adjustment proceedings, most recently in Docket No. 2018-3-E.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. My testimony supports the fuel component of proposed base rates for all customer
12 classes. In addition, I support the fuel pro forma adjustments to the Company's
13 revenue, operating expenses and rate base for the twelve-month period ending
14 December 31, 2017 ("Test Period"), reflected in Smith Exhibit 1.

15 **Q. YOUR TESTIMONY INCLUDES ONE EXHIBIT. WAS MCGEE**
16 **EXHIBIT 1 PREPARED BY YOU OR AT YOUR DIRECTION AND**
17 **SUPERVISION?**

18 A. Yes, it was.

19 **Q. DID YOU PROVIDE ANY INFORMATION INCLUDED IN EXHIBITS**
20 **SPONSORED BY OTHER COMPANY WITNESSES?**

21 A. Yes, I provided the proposed fuel rate and annualized fuel expense to the
22 Company's Test Period operating expenses to Witness Smith.

1 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

2 A. The remainder of my testimony is organized as follows:

3 II. BASE FUEL FACTORS

4 III. PRO FORMA ADJUSTMENTS

5 IV. CONCLUSION

6 **II. BASE FUEL FACTORS**

7 **Q. WHAT BASE FUEL FACTORS DOES DUKE ENERGY CAROLINAS**
8 **PROPOSE TO USE IN THIS DOCKET?**

9 A. The Company proposes to use the following base fuel factors by customer class
10 (excluding gross receipts tax and regulatory fees):

- | | | |
|----|----------------------------|----------------------|
| 11 | • Residential | 1.8769 cents per kWh |
| 12 | • General Service/Lighting | 1.8639 cents per kWh |
| 13 | • Industrial | 1.8161 cents per kWh |

14 These proposed prospective factors are equal to the total of the fuel,
15 environmental, Distributed Energy Resource Program (“DERP”) avoided cost,
16 and the Capacity Related Cost, including the Public Utility Regulatory Policies
17 Act (“PURPA”) purchased power capacity cost factors by customer class
18 approved in Docket No. 2017-3-E and implemented on October 1, 2017. These
19 factors represent the fuel-related amounts that the Company is collecting from its
20 South Carolina retail customers through its approved rates for the period October
21 1, 2017 – September 30, 2018, and are the fuel-related factors that were in effect
22 at the time of preparation of this filing.

1 **Q. WHAT LEVEL OF FUEL COSTS HAS THE COMPANY INCLUDED IN**
2 **COST OF SERVICE?**

3 A. As shown on McGee Exhibit 1, the Company's South Carolina retail adjusted fuel
4 costs expense for the Test Period was \$388,204,097. This amount was calculated
5 using the base fuel cost factors identified above and South Carolina retail Test
6 Period actual kWh sales by customer class. The calculated expense was then
7 adjusted to reflect the South Carolina retail level of line loss. I provided the
8 amount necessary to adjust test period fuel expense to \$388,204,097 to Witness
9 Smith and it is reflected in the operating expenses shown on Smith Exhibit 1,
10 page 3.

11 **Q. PLEASE EXPLAIN THE DERIVATION OF THE FUEL COST FACTORS**
12 **BY CUSTOMER CLASS.**

13 A. The fuel cost factors by customer class represent the most recently approved
14 billing factors at the time the Company prepared its rate increase application and
15 supporting exhibits in this proceeding. Specifically, these factors were approved
16 by the Public Service Commission of South Carolina (the "Commission") in
17 Docket No. 2017-3-E, and supported by the 2017 McGee Exhibits¹ filed in that
18 proceeding. These factors were based on forecasted kWh sales for the billing
19 period October 2017 through September 2018 and estimated fuel, environmental,
20 DERP avoided cost, and capacity related costs to supply those sales.

¹ McGee Exhibits 1-14, filed on July 28, 2017, and adjusted for McGee Settlement Exhibits, filed on September 5, 2017, in Docket No. 2017-3-E (collectively "2017 McGee Exhibits").

1 **Q DOES THE USE OF THESE BASE FUEL FACTORS AFFECT THE**
2 **COMPANY'S REQUESTED RATE INCREASE?**

3 A. No. As described further below, the Company's requested increase in revenues in
4 this case is related to non-fuel revenues. There will be no change to customers'
5 bills as a consequence of inclusion of these fuel cost factors in the Company's
6 proposed base rates. The Company will continue to bill customers the fuel rates
7 authorized by the Commission in its annual fuel proceedings.

8 **III. PRO FORMA ADJUSTMENTS**

9 **Q. ARE YOU SUPPORTING ANY ACCOUNTING AND PRO FORMA**
10 **ADJUSTMENTS IN THIS PROCEEDING?**

11 A. Yes. As discussed by Company Witness Smith, I provide support for the fuel and
12 fuel-related revenue, expense and rate base adjustments for the Test Period,
13 shown on pages 3 and 4 of Smith Exhibit 1.

14 **Q. PLEASE DESCRIBE THESE PRO FORMA ADJUSTMENTS.**

15 A. The pro-forma adjustments I support are as follows:

16 Smith Exhibit 1, Page 3, Line 2 adjusts fuel and fuel-related expense in the
17 Test Period to reflect the fuel rates approved by the Commission in Order No.
18 2017-597, effective October 1, 2017. In addition, the DERP incremental costs as
19 reflected in the general ledger are being adjusted to equal the DERP incremental
20 charge as approved by the Public Service Commission of South Carolina in Order
21 No. 2017-597, effective October 1, 2017. In general, this adjustment effectively
22 eliminates the impact of fuel, fuel-related and DERP charges in this rate case,
23 such that the proposed revenue increase is related to only non-fuel revenues

1 Smith Exhibit 1, Page 4d, Line 9 removes the unamortized DERP solar
2 rebate regulatory asset balance that the Company is amortizing over 15 years
3 within the annual fuel filing, and the associated deferred income tax balance
4 related to the rebate deferral. The solar rebate unamortized accrual balance
5 represents the amount of DERP costs yet to be recovered as of December 31,
6 2017, as reflected in the Company's previously approved fuel proceeding in
7 Docket No. 2018-3-E.

8 These adjustments are needed to eliminate the impact of fuel, fuel-related
9 and DERP charges in this rate case.

10 **Q. CAN YOU FURTHER DESCRIBE HOW THIS PRO FORMA**
11 **ELIMINATES THE IMPACTS OF FUEL IN THIS CASE?**

12 A. Yes. Fuel and fuel-related expenses for each customer class have been adjusted to
13 equal the fuel revenue that is reflected in the annualized retail revenues. This
14 results in fuel expense and fuel revenues offsetting each other, leaving no impact
15 to this rate case.

16 **Q. CAN YOU FURTHER DESCRIBE HOW THIS PRO FORMA**
17 **ELIMINATES THE IMPACTS OF DERP INCREMENTAL COSTS IN**
18 **THIS CASE?**

19 A. Yes. The pro forma adjusts both revenues and expenses to eliminate the impacts
20 of DERP incremental costs. First, since DERP incremental costs are recovered as
21 a component of the Company's fuel factors under S.C. Code Ann. § 58-39-
22 130(A)(2), all DERP incremental revenues were excluded from the annualized
23 retail revenue calculation. In addition, DERP related general and administrative

1 expenses and DERP rebate amortization expenses were removed. Then, in order
2 to negate any impacts of 1) DERP administrative charge for metering costs, and
3 2) the DERP Net Energy Metering Incentive, an equal and offsetting revenue
4 amount for these two items was added. This approach was used since the
5 individual cost components of these items are not easily identifiable.

6 **IV. CONCLUSION**

7 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

8 **A. Yes.**

DUKE ENERGY CAROLINAS, LLC
 South Carolina Retail Adjusted Fuel and Fuel-Related Costs
 Twelve Months Ended December 31, 2017

Line

<u>No.</u>	<u>Description</u>	<u>General</u>			
		<u>Residential - kWh</u> (Col. 1)	<u>Service/Lighting kWh</u> (Col. 2)	<u>Industrial kWh</u> (Col. 3)	<u>SC Retail</u> (Col. 4)
1	SC retail sales, per books	6,206,952,946	5,636,752,394	9,156,872,663	21,000,578,003
2	System fuel and fuel-related costs factors - cents per kWh	1.8769	1.8639	1.8161	
3	Subtotal (line 1 times line 2 / 100) (\$ 000)	\$ 116,498	\$ 105,063	\$ 166,298	\$ 387,860
4	SC retail line loss differential (\$000)				\$ 344
5	Total adjusted SC retail fuel and fuel-related costs (\$000)				\$ 388,204